client newsletter

OSBORNE GROUP
ACCOUNTING, TAX & BUSINESS COUNSEL

August 2017

KEEP CASH CROWNED

If you want to succeed in business, understand that Cash is King. Your business can't survive without cash.

The following six takeaways are essential for business success:

1. **Protect your cash position, by knowing what it is.** Build a cashflow statement and always keep it up to date. If you foresee a shortfall, start at once to fix it.
2. **Create a cash buffer** as an insurance against unexpected difficulties.
3. **Protect your cash position** against revenue shocks, by maintaining a balance equivalent to at least two months of operating expenses.
4. **Be realistic with revenue expectations.** Take action now if it looks like sales are not going to get you to breakeven.
5. **Credit checking up front** will reduce the risk of customer non-payment. Follow up with clear payment terms agreed in writing. Communicate regularly with customers. And automate where possible.
6. **Every dollar you spend reduces cash reserves**. The best way to protect your cash is to create a budget for the spend you know you need, and stick to it.

Cash is not profit – and vice versa

The purpose of a business is to make money, and that means you have to know the difference between profit and cashflow.

Net profit is what you have left after you deduct all your business expenses from all your revenue. You change net profit only by changing the things that affect revenue and expenses.

For example, if:

- You renegotiate with your suppliers, you may get stock cheaper, or carry less inventory
- Your staff engage with customers better, you can learn more about what they do and don't like – and get more business
- You can roster staff differently, you may be able to run your business more efficiently.

Cashflow comes from various sources. However, it also covers operating expenses, taxes, equipment purchases, repayments, distribution, and so on.

Note that a profitable business does not always have good cashflow. And a business with good cashflow is not always profitable. For example, you can have good cashflow, and loss-making expenses.

To work out how fast you can grow your business, you need to look at your projected cashflow. We can advise you on this.

Wine caps help save lives

The awesome Balter Bar & Kitchen in Carterton are donating and collecting aluminium wine bottle caps for the Lions, who are raising money for an amazing cause. 1 wine bottle top buys a child with kidney failure 30 seconds on dialysis!

We at Osborne Group think this is an awesome cause, so have set up collection points at our Masterton and Greytown offices. So feel free to bring in your used wine bottle caps and drop them at one of our counters and we will deliver them to Balter Bar & Kitchen regularly to pass on.

balter
bar and kitchen

Fairer tax rules affect cashflow

A tax bill passed in May made changes that affect cashflow.

Companies get more choice with RWT
From 2017-18, companies can choose to not deduct resident withholding tax on a fully imputed dividend paid to a corporate shareholder. A fully imputed dividend has a tax credit passed on because the company's already paid tax.

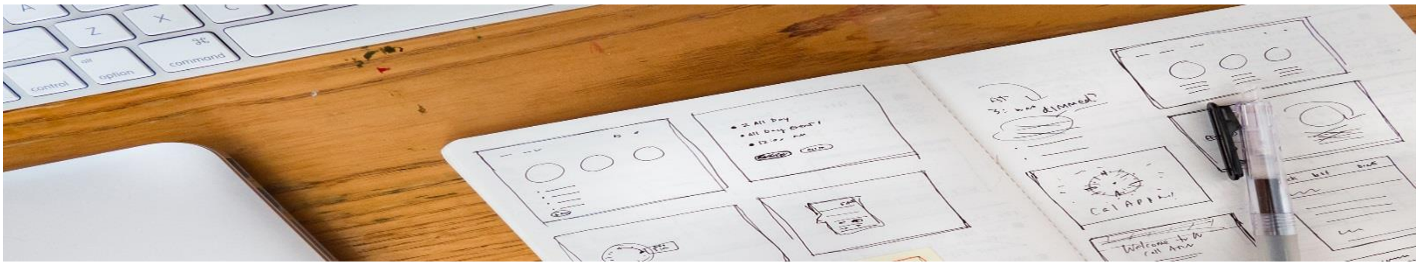
A third tax option for some shareholder-employees
Shareholder-employees of close companies (with five or fewer participants) who receive regular salary or wages, and variable amounts of other employment income, now have a third option as to how they pay tax.

They can now split their income so the base salary is subject to PAYE and the variable amount is paid out before tax. Previously they had to choose either one or the other.

A shareholder-employee who decides to either apply provisional tax to all their earnings, or use the new split method, is committed to either choice for three years.

It's complicated – imputation credit anomaly tackled
Companies owned in common, but not wholly owned, can now transfer imputation credits as part of what IRD calls "loss grouping".
Owned-in-common companies with part-owned loss-making businesses have been able to transfer losses to profit-making companies, benefiting both – except for imputation credits. The more tax paid, the more imputation credits available.
However, when losses were transferred to the profit-making company, the latter's tax bill shrank, meaning there were fewer imputation credits to be passed on.
The changes allow the "profit" company to pay a fully imputed dividend despite loss grouping, keeping the benefit of the loss transfer.

Not so complicated for LTCs, though
With the loss limitation rule being removed for most Look Through Companies, losses that were previously restricted and carried forward are now freed up from 2017-18 and available for offsetting against income. However, LTCs that carry on through a partnership or joint venture will still be subject to the loss limitation rule.
The loss limitation rule ensures the losses an owner can claim reflect their economic loss in the LTC. The deductions an owner can use are limited to the contribution the owner has made, or is liable for.
If you would like us to go over how this affects your business please contact us



R&D TAX CREDIT CHANGES CAN BOOST CASHFLOW

Changed research and development (R&D) tax credit rules, which came into effect at the start of the 2016 income year, can help business cashflow.

The R&D Tax Credit regime allows a "cash out" of an organisation's R&D tax losses. The cashed-out amount must be repaid from future income.

In general, a taxpayer will be eligible for the cash out if they:

- Are a New Zealand tax resident company
- In a tax loss position
- Maintain continuing ownership of intellectual property
- Have a "wage intensity" of at least 20 percent (calculated as total R&D labour expenditure ÷ total labour expenditure).

The "cash-out" is subject to maximum caps and will be clawed back in certain circumstances such as a substantial shareholding change or the disposal of R&D assets. Only expenditure that doesn't meet the threshold to be capitalised as an intangible asset qualifies for the tax credit. If you think you may be eligible please contact us.

Business Health Check

Get a clear cashflow picture before third quarter. Cashflow forecasting is important because if your business runs out of cash it won't be able to operate. You now have one clear month before the third quarter to get the best possible clarity around cashflow.

How often you forecast cashflow depends on the soundness of your business, although you really cannot do it too much. If your business is struggling, you should be forecasting and revising your cashflow every day.

Focus on cashflow now to:

- Identify potential shortfalls in cash balances in advance — like an "early warning system"
- Make sure your business can afford to pay suppliers and employees
- Spot problems with customer payments
- Have current information for stakeholders like banks.

If you would like to have a chat about your business cashflow, let us know.

Contractors get more tax choice

The way contractors pay tax changed on 1 April, giving greater choice, and making it easier to get tax right.

The rules around schedular payments have changed to allow this, and are compulsory for all contractors hired by a recruiter — or other labour hire business — and those previously under schedular payment rules.

Other contractors can opt in if their payer agrees to deduct tax on their behalf.

Contractors already under schedular payment rules

Contractors must complete the new tax rate notification form (IR330C) when starting any new job. On this form, they pick their preferred tax deduction rate. New Zealand tax residents can pick any rate from 10 percent to 100 percent.

If you complete the form but don't pick a tax rate, the labour hire business will deduct tax at 20 percent. If you don't complete the IR330C, the no-notification rate of 45 percent will apply.

Self-employed contractors

If you contract directly for any business and do not have to have tax deducted by the hirer, you may choose to have tax deducted from your payments. You and the payer must agree to this approach, and a written record of the agreement should be kept. If you work for several businesses, each must agree to the request.

If a payer doesn't agree, you will continue to pay tax for that work as previously. Use-of-money interest charges for underpaying provisional tax are also changing. From the 2018 tax year, new rules mean fewer people will have to pay it.

Paying contractors

If your business hires contractors you need to follow the following steps when paying them:

- Check the accounting software includes the option to choose variable tax rates
- Brief the payroll team
- Download the new tax rate notification form (IR330C) and get contractors to complete it
- Add the contractor to your EMS and complete as for any other person receiving schedular payments — ignore additional deductions
- If you employ contractors directly, you must record the agreement with them to deduct tax.

Greytown meeting space

Did you know that we have a meeting room available for hire in our Greytown office?

The Hupenui Room is a light, modern space with a state of the art projector, wireless internet and everything else you could need!

Feel free to check out the room out on the Sharedspace website (www.sharedspace.co.nz – search 'Greytown') or get in contact to come and have a look or make a booking.

Special rates for Osborne Group clients! Just ask us for information!

Payroll services

Among all of the services Osborne Group provides, one you may not be aware of is our full payroll service.

We have members of the team who specialise in taking the hassle out of you needing to manage the administration relating to paying your staff and filing documentation with IRD.

Please get in touch if you'd like information about what we can do to help you!

KEY TAX DATES:

DATE	CATEGORY	DESCRIPTION
21 August	PAYE	Small employers return and payment Large employers return and payment
21 August	RWT	RWT Return and payment due for deductions from dividends and deductions of $500 or more from interest paid during July
21 August	NRWT / Approved Issuer Levy	Payment and Return due for either preceding months' Non-Resident Withholding Tax or Approved Issuer Levy
28 August	GST	Return and payment due for period ended 31 July

Total Care Flooring Design

Tim McKay (owner/operator) and Nadia Hargreaves

Congratulations to the team at Total Care Flooring Design, based in Masterton, who won the Franchise of the Year Award at the Flooring Design Franchise Awards earlier this year!

The award was based on client feedback, sales figures, bill payment punctuality, shop presentation and feedback from their suppliers.

Tim McKay, is the owner/operator, and started the business 26 years ago. In 2009 Total Care Flooring Design joined the Flooring Design Franchise team, which has helped the business to gain big brands and offer competitive pricing in order to be able to compete in such a competitive market.

Total Care Flooring Design has a dedicated, loyal, hardworking team of 6, as well as 16 Installation Contractors who put the icing on the cake on a daily basis, and make sure that 90% of the business's work comes from referrals.

Tim also credits Osborne Group as being a contributing factor in Total Care Flooring Design's success in recent years. Since changing their Accounting and Business Development team to Osborne Group in 2013, Tim says that "Jason, Gavin and Tayla Hatchard have been outstanding. Delivering expert accounting and business development advice. Never faltering in their service as they seem to be aware that our business is only as good as their business".

Tony Woods, Penny Tait, Tim McKay and Kerry Gilliland